

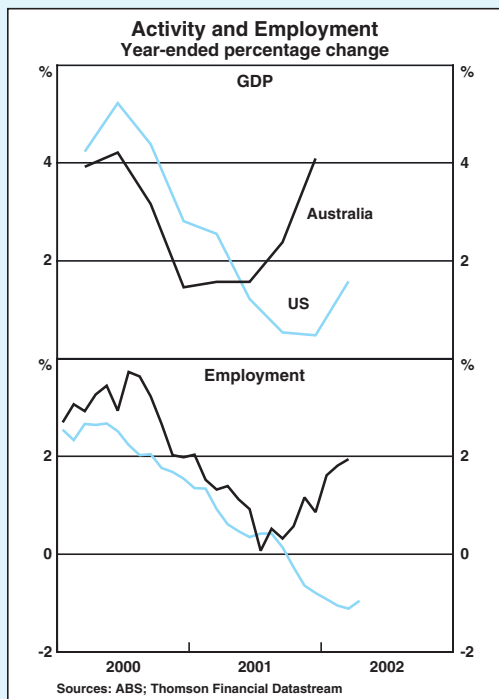
Box A: Comparing the Recent Economic Performance of Australia and the US

Economic conditions in Australia and the US have diverged markedly over the past couple of years. The US economy experienced a sharp slowdown in 2001 – with year-ended growth in GDP declining from around 5 per cent in mid 2000 to 1/2 per cent in December 2001 – before beginning to recover towards the end of the year (Graph A1). In Australia, economic growth slowed in the second half of 2000, with year-ended growth in GDP reaching a trough of 1 1/2 per cent in the December quarter 2000, before rebounding strongly to over 4 per cent by the end of 2001. Much of the slowdown in Australia reflected the large swing in dwelling investment associated with the changes to the tax system in the middle of 2000 – excluding dwelling investment, year-ended growth in output only declined to 2 1/2 per cent.

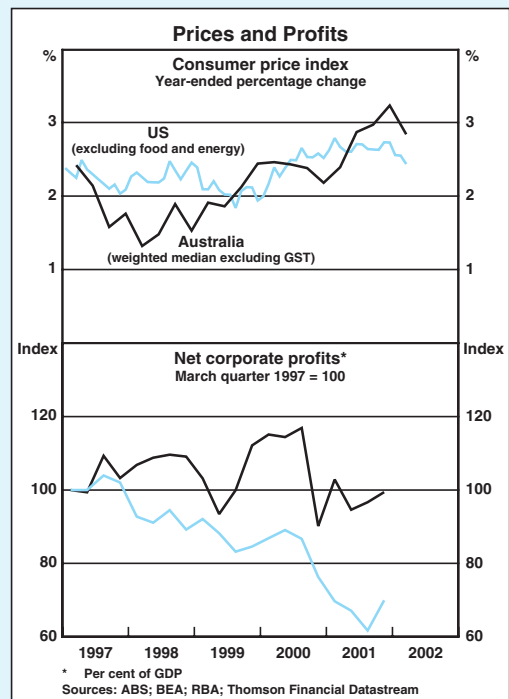
This disparity in the growth rates of the two economies is reflected in the labour market, where employment has increased by nearly 2 per cent in the year to the March quarter in Australia, while over the same period it has declined by around 1 per cent in the US. The index of consumer sentiment in Australia has been much stronger than similar indices in the US. In part reflecting the differing levels of resource utilisation, underlying inflation has picked up in Australia over the past couple of years to be just under 3 per cent, while in the US the CPI (excluding food and energy) has remained steady through this period and is currently a little under 2 1/2 per cent (Graph A2).

The divergence of the two economic cycles, in part, reflects a number of

Graph A1



Graph A2



imbalances in the US economy, particularly relating to the corporate sector, that are not present in the Australian economy. Over 2001, corporate profits in the US declined by over 6 per cent but, over the same period, grew robustly in Australia. Consequently, the profit share in the US has declined in the past two years to be well below its long-run average, whereas in Australia the profit share has remained relatively constant around its historical average.

This contrast between the corporate sectors in the two countries has been reflected in their share markets. The Australian share market reached an historical high in March 2002 and has risen by 8 per cent over the past two years. It is currently only 4 per cent below its peak. Since reaching its peak in March 2000, the US share market has fallen by around 30 per cent. ✎